
**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

INTERSTATE POWER COMPANY	:	01-0528
AND	:	
SOUTH BELOIT WATER, GAS AND ELECTRIC COMPANY	:	
	:	
Joint Petition for Approval of Residential Delivery Services	:	
Implementation Plan submitted pursuant to Section 16-105 of	:	
the Illinois Public Utilities Act.	:	
	:	
INTERSTATE POWER COMPANY	:	01-0628
	:	
Petition for Approval of Delivery Services Tariffs submitted	:	
Pursuant to Section 16-108 of the Illinois Public Utilities Act.	:	
	:	
SOUTH BELOIT WATER, GAS AND	:	
ELECTRIC COMPANY	:	01-0629
	:	(Consolidated)
	:	
Petition for Approval of Delivery Services Tariffs submitted	:	
Pursuant to Section 16-108 of the Illinois Public Utilities Act.	:	
	:	

**REPLY BRIEF ON EXCEPTIONS OF THE STAFF
OF THE ILLINOIS COMMERCE COMMISSION**

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February 26, 2002

NOW COMES the Staff of the Illinois Commerce Commission (“Staff”) and pursuant to Section 200.830 of the Illinois Commerce Commission Rules of Practice (83 Ill. Adm. Code 200.830), respectfully submits this Reply Brief on Exceptions.

In its Brief on Exceptions (“BOE”) Interstate Power Company (“IPC”) and South Beloit Water, Gas & Electric Company (“SBWGE”), collectively the “Companies”, criticize the Administrative Law Judges Proposed Order’s (“ALJPO”) conclusions on rate of return and propose numerous changes for incorporation into the Post Exceptions Proposed Order (“PEPO”). The Companies’ exceptions focus on a few main issues and presents largely the same arguments the Companies previously lodged, which Staff has addressed. However, the Companies have made several statements that warrant further response. Staff believes that none of the Companies’ exceptions to the ALJPO are valid and that none of the changes the Companies proposed should be incorporated into the PEPO.

The Companies argue that since Staff presented an electric sample it should be required to give weight to the electric sample, otherwise the Commission is condoning the introduction of irrelevant evidence into the record. They assert that this docket is about electric services not gas services. The Companies also note that Staff has given weight to its electric sample in other residential delivery service dockets. (IPC and SBWGE BOE, pp. 3-4)

The electric samples’ relevance does not hinge on whether it is ultimately reflected in the cost of equity recommendation but whether it assists the Commission to

make a determination on that issue. There are few, if any, pure electric delivery service companies; therefore, one must look at companies that share characteristics of electric delivery services. Gas distribution and electric delivery services both deliver a commodity. While vertically integrated electric service includes electric delivery services, generation service is included as well, the risk of which electric delivery services customers will pay for through their energy bills. (Staff RB, pp.3-4) A samples' ultimate impact on the cost of equity recommendation should be assessed through measures of risk such as credit ratings and business profiles. In this case Staff's gas samples were more representative of IPC and SBWGE's electric delivery service risk than the electric samples. By providing both electric and gas samples along with their respective risk measures, the Commission can have greater confidence that Staff's decision not to include the electric sample in Staff's cost of equity recommendation was more appropriate than had Staff omitted the electric sample from the evidence Staff presented. In addition, although Staff gave weight to its electric sample in some of the other residential delivery service dockets, it did not give weight to the electric sample in all previous residential delivery service dockets, as the Company implies. Rather, Staff's weighting of samples in the DST cases was based on the same methodology (i.e., a comparison of utility credit ratings and business position scores) Ms. Kight used in these proceedings. (Tr. 94-95; Staff RB pp. 10-11)

The Companies challenge Ms. Kight's criticism of Mr. Bacalao's sample by asserting that both Ms. Kight and Mr. Bacalao included companies with non-utility risk in their samples. (Interstate Power Company and South Beloit Water, Gas & Electric Company Brief on Exceptions p. 5) Mr. Bacalao selected companies that had the same

safety rank as Alliant Energy Corporation (“AEC”). AEC’s safety rank reflects the company’s non-utility foreign distribution and domestic generation businesses. Mr. Bacalao’s failure to make appropriate adjustments to remove AEC’s nonutility risk violates Section 9-230 of the Act. (Staff IB pp.16-17) Ms. Kight however, selected her samples based on the risk of IPC and SBWGE’s electric delivery services and excluded the negative impact IPC and SBWGE’s affiliation with non-utility companies had on their credit ratings. A sample that includes utilities that have some unregulated operations does not violate Section 9-230 of that Act if that sample is shown to have the same risk of the Illinois utility for which rates are being set. This principle was clearly articulated in the Commission’s Order in Docket 97-0351, which supports Ms. Kight’s methodology for forming a sample. That Order states:

When the cost of common equity for a utility is estimated by use of data for a sample company group, it is essential that there be a reasonable basis to conclude that the companies in the sample are comparable to the utility. Although Mr. Pregozen’s sample included utilities with unregulated operations, we note that these companies are not affiliated with CIWC. Furthermore, we note that Mr. Pregozen measured the risk of those companies in relation to CIWC alone. Mr. Pregozen’s technique quantifies risk, and companies with the same risk have the same required rate of return, regardless of the source of that risk.

(Order, Docket 97-0351, June 17, 1998, p.39) In contrast to Ms. Kight, Mr. Bacalao performed his risk analysis on AEC, not IPC or SBWGE. Moreover, Ms. Kight showed that the measure of risk Mr. Bacalao used was greatly flawed and resulted in a sample comprised of companies with very different risks. (Staff RB, pp. 10-11) For the above reasons, the Commission should disregard the Company’s criticisms of the Proposed Order and reject the Companies’ proposed Exceptions.

WHEREFORE, for the reasons set forth above and those previously stated in its briefs, the Staff of the Illinois Commerce Commission respectfully requests that its modifications to the Administrative Law Judges' Proposed Order be adopted.

Respectfully submitted,

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